To: Hengst, Benjamin[Hengst.Benjamin@epa.gov]; Argyropoulos, Paul[Argyropoulos.Paul@epa.gov]
From: Grundler, Christopher
Sent: Thur 11/20/2014 8:42:39 PM
Subject: FW: RVO Rumor we discussed ...

I think USDA must be talking to this guy

From: EthanolRFA@aol.com [mailto:EthanolRFA@aol.com]
Sent: Thursday, November 20, 2014 12:47 PM
To: Grundler, Christopher
Subject: Re: RVO Rumor we discussed ...

He writes for Informa Economics. I've generally found his reporting on ethanol issues to be consistently wrong, but he's an amiable bloke. He is very closely followed amongst the ag community. Informa knows grain markets and policy quite well.

In a message dated 11/20/2014 12:44:48 P.M. Eastern Standard Time, grundler.christopher@epa.gov writes:

> Thx. Who is this guy?
>
> Christopher Grundler, Director
> Office of Transportation and Air Quality
> U.S. Environmental Protection Agency
> 202.564.1682 (DC)
> 734.214.4207 (Ann Arbor)
> www.epa.gov/otaq
>
> **From:** EthanolRFA@aol.com
>
> **Sent:** Thursday, November 20, 2014 12:42 PM
>
> **To:** Grundler, Christopher; Grundler, Christopher
>
> **Subject:** RVO Rumor we discussed ...
>
> Chris:

At the risk of some copyright violation, I thought you should see this. In this weird period when nothing is coming from the White House, this is the kind of rumor that begins to get legs. I just don't see how this would work though, and his description of the RVP issue is so convoluted it just doesn't make sense. But, again, I thought you should see it. Thanks for the call this morning. We'll keep in touch.

Bob

Sources: RFS Situation Still Uncertain, But More 'Options' Surfacing

By: Jim Wiesemeyer, via special agreement with Informa Economics, Inc.

November 19, 2014

Some now suggest there may be no 2014 RFS mandate established

---

As the extended wait continues for the final 2014 Renewable Fuels Standard (RFS) plan from EPA, sources are signaling some new developments are potentially coming for 2014 and beyond.

No RFS for 2014? Some sources are now suggesting that there may not be a final RFS level set for 2014, but instead the RFS level for the nearly finished year would be determined based on production of RINs logged into the EPA Moderated Transaction System (EMTS), the system that keeps track of RINS from producers, blenders and obligated parties.

2015 details to be set in early 2015. EPA has already signaled they will not be meeting the Nov. 30, 2014, deadline to propose the 2015 RFS standards. But contacts advise that the agency is now expected to finalize the 2015 RFS volume totals early next year and that could match closer to the approximate levels that we have been hearing for the 2014 levels, with some adjustment for carryover RINs for ethanol in particular.

Beyond 2015. Some sources are now indicating that the administration could be mulling a considerable reset of the RFS for 2016 and beyond (through 2022), with an objective of still getting corn-based ethanol to the 15 billion gallon mark that is spelled out in law that was to have been hit in 2015.

RVP issue. In addition, sources advise that USDA Secretary Vilsack has weighed in relative to the issue of Reid Vapor Pressure. Sources indicate Vilsack has been advocating increasing the RVP during the summer months of May 1 to Sept. 30.

EPA set the RVP standard at 9.0 psi for designated volatility attainment areas and the RVP standard at 7.8 psi for certain designated volatility nonattainment areas. The 9.0 psi standard applies to conventional gasoline in all other areas of the lower 48 states not covered by either the 7.8 psi federal volatility requirement or an EPA approved SIP (State Implementation Plan) fuel.

Comments: A host of possibilities now appear to be surfacing as 2014 winds down without the 2014 requirements being finalized. As recent as October, OMB Director Shaun Donovan told a *Reuters* Global Climate Change Summit that his office was still "carefully" weighing the final targets to ensure they produce the "intended results." It's not clear if that OMB review is what has produced these potential developments. In addition, the indications on the plans for 2016 and beyond may be referring to what several sources have signaled will be key for the RFS in those years – that EPA may retool the process for setting the RFS levels.

As for the RVP issue, that would be a potentially surprising issue since EPA has in recent years only adjusted the RVP from the previously established levels in nonattainment areas on an emergency basis or to address a specific event such as a hurricane or refiner outage. However, the Clean Air Act appears to give leeway for EPA to set an EVP above 9.0 which appears to be what may be at issue.

From: Argyropoulos, Paul
Location: RM. 6520 DC/RM. C-174 DOD AA
Importance: Normal
Subject: Accepted: RFS Reset Rule Discussions
Start Date/Time: Wed 8/12/2015 5:00:00 PM
End Date/Time: Wed 8/12/2015 5:45:00 PM

From: Argyropoulos, Paul
Location: RM. 6520 DC/RM. C-174 DOD AA
Importance: Normal
Subject: Accepted: RFS Reset Rule Discussions
Start Date/Time: Tue 8/11/2015 6:00:00 PM
End Date/Time: Tue 8/11/2015 6:45:00 PM

Prepared Remarks for Michael McAdams
Advanced Bioeconomy Leadership Conference Policy Outlook
March 11, 2015

Doug, ladies and gentleman, good morning. It is always good to be back with you at the ABLC.

I could have never imagined when I first spoke at this conference seven years ago that I would be here today forced to say that 2008 was a better year. Sadly, it's true.

Today, members of the Advanced Biofuels Association are facing incredible challenges, including diminishing capital markets, an uncertain tax code, and a patch-quilt of state laws and federal regulations. Unfortunately, the Renewable Fuels Standard (RFS) – the very tool that was created to foster our industry – has become one of the greatest obstacles to continued development of the advanced and cellulosic biofuel industry due to inconsistent and poor implementation.

Remember back to 2007 when the RFS amendments were debated and signed into law by an overwhelming bipartisan majority. Some members of Congress wanted to expand energy options to enhance our national security. Others were motivated by the promise of lower carbon fuels, while still other lawmakers were focused on economic opportunity for new jobs in rural America. But there was near unanimous agreement that the *ultimate prize* of the RFS, was to foster the development of the

advanced and cellulosic biofuel manufacturers who would use non-food feedstocks to produce next-generation fuels. In fact, the authors optimistically called for an additional 21 billion gallons by 2022, well beyond 15 billion gallons of corn ethanol.

Eight years after its passage, it is easy to see that the RFS may be working for some, but it is only minimally helpful to advance the promise and potential of next-generation renewable fuels. We need to acknowledge the simple fact: that the RFS is not equally helpful to all sectors of the biofuels industry.

Let's look at last year's performance to demonstrate this point, that one size does not fit all. According to the EPA EMTS system, the corn ethanol industry produced 14.3 billion gallons in 2014, while the biomass-based diesel pool – made up primarily of biodiesel – produced around 1.7 billion gallons. Those are billions with a "B" and healthy numbers. What do corn ethanol and biodiesel have in common? They use established technology, process traditional food feedstocks and have already built more production capacity than called for under the statute.

As for the non-biodiesel advanced and cellulosic sectors, last year's production was under 180 million gallons. That's better than nothing but not nearly enough. The current RFS simply doesn't work as well for companies trying to move cutting-edge technology from the demonstration plant to commercial scale – which necessarily involves

raising capital to build new production facilities. It's not working for three primary reasons.

First, is the inverse relationship between policy uncertainty and my members' ability to raise investment capital. Repeatedly missing deadlines to set annual RFS requirements and reducing those requirements below statutory levels has created significant uncertainty, and that ambiguity causes financing for advanced and cellulosic companies to evaporate.

Second, the calendar is now also working against us. Even if your company has a business plan that works when a barrel of oil costs $50 and at today's RIN prices, capital markets now question whether the support provided by the RFS will exist after 2022. There's a reason most of us take out 30-year mortgages, but today's RFS uncertainty would have lenders requiring advanced and cellulosic companies to look at paying it off in seven years.

Another concern is the lack of a market for companies actually making cellulosic fuel. Let's say your company somehow manages to overcome the obstacles I've highlighted and produces cellulosic biofuel. Perversely, with EPA's current implementation, it is usually a much better deal for obligated parties to purchase a refundable waiver credit from the EPA than it is to buy your actual gallons with the cellulosic credit. That's why 33 million gallons of cellulosic biofuel RINs were left

sitting on the sidelines in 2014, because it was cheaper for oil companies to buy EPA cellulosic waiver credits.

After working with EPA since 2009 to attempt to get pathways approved, feedstocks approved, annual volume requirements released on time, only to frequently be told from the agency that they do not have sufficient legal authority to get the job done, it has become clear that statutory changes need to be made to the RFS. And that is why the members of ABFA are now calling on Congress to pass legislative fixes that will solve these problems.

- First, we need a minimum RIN value for cellulosic fuels that will provide enough certainty and stability for our members to build facilities and commercialize their innovative products. And because we are competing against fossil fuels produced at cash cost, using already built and fully depreciated facilities, cellulosic RIN values should also be indexed to the price of oil, providing more support when petroleum costs $50 per barrel and less at $100 per barrel.

- Second, Congress should show their support for advanced and cellulosic fuels by making it clear the program extends beyond 2022 to provide sufficient time to develop this industry. Again, we can't pay off the new plant in seven years.

- And lastly, we need to remove The loop hole that allows the oil industry to opt out from buying a cellulosic gallon with its credit and in lieu buying a waiver credit. The RFS should encourage production of all available advanced and cellulosic biofuels. But just as important, oil companies must be required to purchase what is produced so Americans can benefit from consuming these cleaner fuels.

In order to achieve such changes, the RFS needs to be amended legislatively. So I am announcing today that ABFA, at the instruction of our members, will actively seek to reform the program. We call on Congress, which has studied these issues for two years and held numerous hearings, to step up and pass the fixes I have outlined. We believe that if Congress enacts these changes, then the investment community will have the certainty necessary to finance continued development of the advanced and cellulosic industry.

As for the current mess setting annual volume requirements, we have advocated for over a year now to simply utilize the actual production numbers off the EMTS system. Reset the start times from November 30th to mid-February when the final numbers are available. Doing so will eliminate the difficulty in setting the RVO numbers each year and turns the function into a simple administrative function rather than a long, drawn-out debate which would require a long rule making process.

Most of you got into this business because we want to leave the world in better shape for the next generation – a mission that is as critical as ever.

By 2050, global population is expected to grow to 9 billion. The demand for liquid transportation fuels will increase because there's no other good option for powering the airplanes, heavy-duty trucks, diesel equipment and ocean-going vessels that will be necessary to move people and deliver freight. Next generation biofuels are still a critical part of the solution to finding more sustainable, lower carbon alternatives to provide the energy our world needs. At a minimum, they are a smart insurance policy.

If you are committed to fulfilling this mission, and if you believe like I do that advanced and cellulosic biofuels are still poised to flourish in the right environment, then I ask you to join us and work with the Advanced Biofuels Association to reform and strengthen the RFS so it can deliver the promise of next-generation renewable fuels.

Again, it is a pleasure to be with you today, and I look forward to your questions.